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Exempt Action Final Regulation Agency Background Document

Agency name	Department of Medical Assistance Services
Virginia Administrative Code (VAC) citation	12VAC30-70-331
Regulation title	Methods and Standards for Establishing Payment Rates—Inpatient Hospital Services
Action title	Increase Adjustment Factor to .76
Document preparation date	

When a regulatory action is exempt from executive branch review pursuant to § 2.2-4002 or § 2.2-4006(A) of the of the Administrative Process Act (APA) (townhall.state.va.us/dpbpages/dpb_apa.htm), the agency is encouraged to provide information to the public on the Regulatory Town Hall using this form.

Note: While posting this form on the Town Hall is optional, the agency must comply with requirements of the Virginia Register Act (leg1.state.va.us/cgi-bin/legp504.exe?000+cod+2.2-4100), the *Virginia Register Form, Style, and Procedure Manual* (legis.state.va.us/codecomm/register/download/styl8_95.rtf), and Executive Orders 21 (02) and 58 (99) (governor.state.va.us/Press_Policy/Executive_Orders/EOHome.html)

Summary

In a short paragraph, please summarize all substantive changes that are being proposed in this regulatory action.

Pursuant to Chapter 4, Item 326 XX of the 2005 Acts of the Assembly the Department of Medical Assistance Services (DMAS) proposes to set the adjustment factor for private inpatient hospitals at 76 percent beginning with the 2006 rate year (SFY 2006) on July 1, 2005. The 2004 General Assembly directed the Agency to change the adjustment factor formula to a straight 75% rate. The 2005 General Assembly modified that legislative mandate from 75% to 76%. This final exempt regulatory change implements the 2005 mandate.

Statement of agency final action

Please provide a statement of the final action taken by the agency including (1) the date the action was taken, (2) the name of the agency taking the action, and (3) the title of the regulation.

I hereby approve the foregoing Agency Background Document with the attached amended State Plan pages Methods and Standards for Establishing Payment Rates—Inpatient Hospital Services:

Increase Type Two Hospital Adjustment Factor to .76 (12 VAC 30-70-331) and adopt the action stated therein. I certify that this final regulatory action has completed all the requirements of the Code of Virginia § 2.2-4012, of the Administrative Process Act.

Date

Patrick W. Finnerty, Director
Dept. of Medical Assistance Services

Substance

Please detail any changes that are proposed. Please outline new substantive provisions, all substantive changes to existing sections, or both where appropriate.

The section of the State Plan for Medical Assistance that is affected by this action is the Methods and Standards for Establishing Payment Rates—Inpatient Hospital Care (Attachment 4.19-A (12 VAC 30-70-331)).

The purpose of the regulatory change discussed in this document is to set the private inpatient hospital adjustment factor at 0.76. This regulatory action is initiated at the direction of the Governor and General Assembly found in Item 326 XX of the 2005 Appropriations Act. This regulatory change is intended to increase inpatient hospital reimbursement to private (Type Two) hospitals in order to promote access to Medicaid services. Private (Type Two) hospitals have proposed that the discount taken by the Medicaid program should be eliminated and costs should be reimbursed. This regulatory change lowers the discount taken, but does not eliminate the discount altogether.

12VAC30-70-331 will be amended to eliminate the formula used to determine the adjustment factor, and to set the adjustment factor to 0.76. Under the current regulations, the adjustment factor for private (Type Two) hospitals is the ratio of Medicaid payments to Medicaid allowable costs in a determined base year. For the 2005 rate year, the calculated adjustment factor is approximately 0.72. Therefore, under the current formula, the Medicaid program has taken a 28 percent discount off of the providers’ base year costs in determining the payment rates for the 2005 rate year. Under normal circumstances, the adjustment factor is calculated only in years for which the inpatient reimbursement system is rebased, which by regulation occurs at least every three years. When the system is not undergoing a rebasing, the adjustment factor remains at the level determined in the most recent rebasing, with hospital rates adjusted for inflation in the out years of a rebasing.

Setting the adjustment factor to 0.76 will eliminate any calculation of the adjustment factor and will reduce the discount taken to 24 percent (currently 28 percent). This change is being made to meet the directive of the Governor and General Assembly in the 2005 Appropriations Act. This change will be effective beginning with the 2006 rate year with the new adjustment factor applied to the current base year in use for the 2005 rates. The 2005 rates and DRG weights

represent the first year of the most recent rebasing. DMAS is not rebasing the rates and weights again but rather is applying the new adjustment factor to the existing base year calculations. Under current regulations, DMAS is not required to rebase again until the 2008 rate year.

Note: In 2004 DMAS promulgated a Fast-Track regulation addressing 12 VAC 30-70-331 that eliminated the adjustment factor formula for Type Two Hospitals and set the adjustment factor at 0.75 for Type Two inpatient hospitals. That Fast-Track regulation was set to be effective July 1, 2005. In the interim, the General Assembly changed the July 1, 2005 effective Type Two hospital adjustment factor rate from 0.75 to 0.76. The Department therefore withdrew the Fast-Track regulation setting the adjustment factor at 0.75, and is replacing it with this present action.

Family impact

Assess the impact of this regulatory action on the institution of the family and family stability.

This regulatory action will not have any negative effects on the institution of the family or family stability. It will not increase or decrease disposable family income or erode the marital commitment. It will not discourage economic self-sufficiency, self-pride, or the assumption of family responsibilities.